

PCA Real Estate Advisors, Inc.

August 10, 2007

Members of the CalPERS Policy Subcommittee
California Public Employees' Retirement System
Lincoln Plaza East
400 Q Street, Room E4800
Sacramento, CA 95814

Re: Statement of Investment Policy for Timber

Dear Members of the CalPERS Policy Subcommittee:

PCA Real Estate Advisors, Inc. ("PCA RE") has reviewed the proposed changes made to the Statement of Investment Policy for Timber ("Policy") to be presented at the Real Estate Subcommittee on August 10, 2007. It is our understanding that the proposed changes to the Policy reflect the parameters set forth for timberland (now broadened and referred to as "forestland") investments within the proposed Inflation-Linked Asset Class presented by the Chief Investment Officer at the June Investment Committee. Further, Staff presented additional forestland revenue sources at the July Board Off-site which are included in the proposed policy revisions.

Cortex Consultants, Inc. ("Cortex") was hired by PCA RE, at Staff's request, to assist Staff in preparing the modifications as they have a deep, specialized expertise in forest economics and management.

As noted above, a new asset class, referred to as the "Inflation-Linked Asset Class", has been proposed which will bring together certain investment types that share unique risk and return characteristics. The proposed asset class is expected to comprise four components: commodities, global inflation-linked bonds, infrastructure and forestland. Timberland, historically, has been a sector of the non-core real estate portfolio. CalPERS began investing in timberland in the late 1980s and has earned an after-fee since inception return of 11.8% as of March 31, 2007. However, it has been a unique sector within the real estate portfolio with risk and return characteristics differing from the other real estate investments. Transferring the Timberland Program into the Inflation-Linked Asset Class more clearly aligns this sector with investment programs sharing similar characteristics.

CalPERS has an existing timberland policy that has governed investment activity as a noncore real estate sector. This Policy has been updated and modified to reflect the proposed asset class change, including changing the policy title and modifying the strategic objectives as well as the target returns. The Policy has been enhanced to reflect emphasis on environmental and social sustainability and non-traditional forest production from emerging markets as well as refinement of concepts related to investment quality and diversification. Lastly, the Policy includes additional forestland investment opportunities in the areas of renewal energy, biofuel feedstock, cellulosic ethanol and windpower.

PCA RE concurs with the proposed policy changes for forestland investments. Cortex will be available for questions at the August 10th Policy Subcommittee Meeting.

Very truly yours,

A handwritten signature in black ink, reading "Nori Gerardo Lietz". The signature is fluid and cursive, with the first name "Nori" being the most prominent.

Nori Gerardo Lietz
Managing Director

cc: Russell Read, CalPERS
Anne Stausboll, CalPERS
Ted Eliopoulos, CalPERS
Mike Claybar, CalPERS
Dilo Seneviratne, CalPERS
Pam Alsterlind, PCA RE
Andrew Howard, Cortex